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SUPERIOR COURT OF NEW JERSEY
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SUPERIOR COURT OF NEW JERSEY
CHANCERY DIVISION-MERCER COUNTY
DOCKET NO.: MER-C-62-03

HOLLY C. BAKKE,
COMMISSIONER OF BANKING
AND INSURANCE, STATE OF
NEW JERSEY,

Plaintiff,

v.

SECURITY INDEMNITY
INSURANCE COMPANY,
SPECIALTY INSURANCE
AGENCY, INC. and
SPECIALTY DATA SYSTEMS
INC.,

Defendants.

Civil Action

ORDER OF REHABILITATION
OF A PROPERTY/CASUALTY
INSURANCE COMPANY

This matter having been opened to the Court by Peter C. Harvey, Acting Attorney General of New Jersey, by James A. Carey, Jr., Deputy Attorney General, as attorney for plaintiff, Holly C. Bakke, Commissioner of the Department of Banking and Insurance of the State of New Jersey ("Commissioner"), by way of Verified

Complaint and Order to Show Cause filed on ~~April~~ ^{May} 15, 2003, directing defendants to appear and show cause why an Order should not be entered (a) declaring Security Indemnity to be in such condition that further transaction of business will be hazardous to its policyholders, creditors or the public and directing the Commissioner to rehabilitate Security Indemnity Insurance Company ("Security Indemnity"), and (b) granting such injunctive and other relief as may be necessary to accomplish said directive, with a hearing having been held on the Order to Show Cause on June 25, 2003 with proper notice having been given to defendants, and the Court having considered the Commissioner's application; and the evidence, arguments, objections, statements and matters presented by interested persons, the Court hereby finds that: *

1. Security Indemnity is a stock property and casualty insurance company authorized to transact insurance business in New Jersey since December 24, 1985, and is governed by the provisions of N.J.S.A. 17:17-1, et seq.

2. This Court has original jurisdiction over this delinquency proceeding pursuant to N.J.S.A. 17:30C-2.

3. Sufficient grounds exist under N.J.S.A. 17:30C-1, et seq., for the entry of an order of rehabilitation to protect policyholders, creditors and the public, and the court having set forth its reasons on the record after oral argument; IT IS, therefore, on this 27th day of June, 2003,

ORDERED as follows:

* This date was changed after entry to reflect the correct date. MSB

1. The application of the Commissioner is hereby granted;

2. The Commissioner, and her successors in office, is hereby appointed as Rehabilitator of Security Indemnity and is vested, in addition to the powers set forth herein, with all the powers and authority expressed or implied under the provisions of N.J.S.A. 17:30C-1 et seq. The Rehabilitator may do all the acts necessary and appropriate for the accomplishment of the rehabilitation of Security Indemnity. The Rehabilitator may appoint a Deputy Rehabilitator to assist her in accomplishing the directives of this Order. The Deputy Rehabilitator shall, subject to the approval of the Rehabilitator, be entitled to exercise all of the powers and authority vested in the Rehabilitator pursuant to this Order and applicable law and shall serve at the pleasure of the Rehabilitator. Compensation of the Deputy Rehabilitator shall be set by the Rehabilitator, and paid out of the funds and assets of Security Indemnity. The Deputy Rehabilitator shall have no personal liability for his/her acts or omissions in connection with his/her duties as Deputy Rehabilitator provided that such acts or omissions are undertaken or committed in good faith and without willful misconduct, or willful, wanton or gross negligence or criminal intent. The Deputy Rehabilitator shall not be deemed to be an employee of the State of New Jersey and thus, shall not be subject to the provisions of the New Jersey Tort Claims Act,

N.J.S.A. 59:1-1 et seq. All expenses and costs incurred by the Deputy Rehabilitator in connection with lawsuits against him/her in his/her personal capacity shall, subject to the prior written approval of the Commissioner and the court, be paid out of the funds and assets of Security Indemnity provided that such lawsuits are not the result of any bad faith, willful misconduct, gross negligence or criminal actions on the part of the Deputy Rehabilitator.

3. The Rehabilitator is hereby directed to immediately begin conducting the business of Security Indemnity and to begin taking such steps as the Rehabilitator or her designee may deem appropriate toward removing the cause and conditions which have made rehabilitation necessary as well as to explore the liquidation of Security Indemnity. The Rehabilitator is hereby authorized to take such necessary steps as she may deem appropriate to protect and preserve the assets of Security Indemnity.

4. The Rehabilitator is hereby vested with title to all assets, contracts, causes of action, books, records, bank accounts, certificates of deposits, funds, securities, and all real or personal property of any nature, including furniture, fixtures and office supplies, wherever located, including such property of Security Indemnity which may be discovered hereafter, and is hereby directed to take immediate and exclusive possession and control of same. The filing or recording of this Order with the Clerk of this

Court and with the recorder of deeds of the jurisdiction in which Security Indemnity's corporate administrative offices are located, or, in the case of real estate, with the recorder of deeds of the jurisdictions where the properties are located, shall impart the same notice as would be imparted by a deed, bill of sale, or other evidence of title filed or recorded. Except as otherwise indicated elsewhere in this Order, and upon notice provided by the Rehabilitator, all agents and brokers and all other persons or entities holding funds, assets or property of or on behalf of Security Indemnity or its direct and indirect insurance subsidiaries shall forthwith file an accounting of those funds, assets or property with the Rehabilitator and shall, within 10 days of the service of this Order, turn said funds, assets or property over to the Rehabilitator.

5. Until further order of this Court, no obligation of Security Indemnity nor any claim of any nature shall be paid except those which in the discretion of the Rehabilitator are necessary to conduct the business of Security Indemnity pursuant to the within proceeding. Security Indemnity and its directors, trustees, officers, employees, agents or representatives are hereby enjoined, restrained and prohibited from paying any claims or obligations of Security Indemnity without the express written consent or directive of the Rehabilitator or her designees or appointees.

6. All persons, corporations, partnerships and all other entities, wherever located are hereby enjoined and restrained from interfering in any manner with the Rehabilitator's possession, title and rights to the assets and property of Security Indemnity and from interfering in any manner with the conduct of the rehabilitation of Security Indemnity. Those persons, corporations, partnerships, and all other entities are hereby permanently enjoined and restrained from wasting, transferring, selling, concealing, destroying, disbursing, disposing of, or assigning any assets, contracts, causes of action, funds, or other property of any nature of Security Indemnity.

7. Specialty Insurance Agency, Inc., and Specialty Data Systems, Inc., and the officers, directors, shareholders, agents and employees of Specialty Insurance Agency, Inc., and Specialty Data Systems, Inc., are hereby enjoined and restrained from taking any steps whatsoever to terminate, frustrate or otherwise interfere with the performance of any service contracts with Security Indemnity. Specialty Insurance Agency, Inc., and Specialty Data Systems, Inc., and the officers, directors, shareholders, agents and employees of Specialty Insurance Agency, Inc., and Specialty Data Systems, Inc., shall continue to provide all administrative, underwriting, claims and policyholder services, continue to perform all computer/database related services and continue to provide access to computer hardware and software, to Security Indemnity

pursuant to the Managing General Agency Agreement between Security Indemnity and Specialty Insurance Agency, and any other agreements. The continued operation and performance of any contracts between Security Indemnity and Specialty Insurance Agency, Inc., shall be at the Rehabilitator's sole discretion, and the Rehabilitator or Deputy Rehabilitator may continue or terminate any such contract at any time, without leave of this Court.

8. The Rehabilitator may change to her own name the name of any of Security Indemnity's accounts, funds or other property or assets held with any bank, savings and loan association or other financial institution, wherever located and may withdraw such funds, accounts, and other assets from such institutions or take any lesser action necessary for the proper conduct of the rehabilitation.

9. All secured creditors or parties, lienholders, collateral holders or other persons claiming secured, priority or preferred interests in any property or assets of Security Indemnity, including any governmental entity, are hereby permanently enjoined from taking any steps whatsoever to transfer, sell, encumber, attach, dispose of or exercise purported rights in or against any property or assets of Security Indemnity.

10. All officers, directors, trustees, shareholders, policyholders, agents, and employees of Security Indemnity and all other persons or entities of any nature, including but not limited

to claimants, reinsurers, plaintiffs, petitioners and any governmental agencies having claims of any nature against Security Indemnity, including crossclaims, counterclaims and third party claims, are hereby enjoined and restrained from:

(a) Conducting any portion or phase of the business of Security Indemnity or its subsidiaries unless so authorized by the Rehabilitator or her designee;

(b) Pursuing litigation against Security Indemnity including bringing, maintaining or further prosecuting any action at law or equity, arbitration, special, or other proceeding against Security Indemnity or its direct and indirect insurance subsidiaries or against the Commissioner and her successors in office as Rehabilitator thereof, or against the Deputy Rehabilitator appointed pursuant to paragraph 2 above;

(c) Making or executing any levy upon the property of Security Indemnity or its direct and indirect insurance subsidiaries;

(d) Instituting, maintaining or further presenting any suit at law or equity or any collection activity, or any other proceeding of any nature against any policyholder or insured of Security Indemnity resulting from Security Indemnity's financial condition or the failure of Security Indemnity to pay any claim or to meet any of its contractual obligations due to its financial impairment.

(e) Interfering in any way with the Rehabilitator, or any successors in office, in her possession of or title to the property and assets of Security Indemnity, or in the discharge of her duties, pursuant to this Order. All persons or entities of any nature, other than the Rehabilitator, are hereby restrained from commencing, maintaining or further prosecuting any direct or indirect actions against any reinsurer of Security Indemnity for proceeds of reinsurance policies issued, to and treaties or other agreements with Security Indemnity.

10A. (a) All court actions, arbitrations, and mediations currently or hereafter pending against Security Indemnity in the State of New Jersey or elsewhere are hereby stayed.

(b) All court actions, arbitrations, and mediations currently or hereafter pending against an insured of Security Indemnity in the State of New Jersey or elsewhere are stayed for ninety (90) days from the effective date of this Order or such additional time as the Rehabilitator may request.

11. Security Indemnity, its officers, directors, policyholders, agents and employees, and all other persons or entities of any nature, having any property or records belonging to Security Indemnity, or pertaining to the business of Security Indemnity, including data processing information and records of any kind, are hereby directed to assign, transfer and deliver to the Rehabilitator all of such property in whatever name the same may

be, and any persons, firms or corporations having any books, papers or records relating to the business of Security Indemnity shall preserve the same and submit these to the Rehabilitator for examination at all reasonable times.

12. In addition to the powers set forth at N.J.S.A. 17:30C-1 et seq., the Rehabilitator shall have the power:

(a) to conduct the business of Security Indemnity and its direct and indirect insurance subsidiaries, including the discretion or not to continue to pay claims;

(b) to honor, as expenses of administration, all expenses heretofore incurred by the Commissioner as Administrative Supervisor, or by her designees and appointees, which currently remain unpaid;

(c) to pay from the funds or assets of Security Indemnity or from such other funds that may become available to him, all expenses of marshaling, taking possession of, conserving, conducting, liquidating, disposing of or otherwise dealing with the business and property of Security Indemnity or its direct and indirect insurance subsidiaries;

(d) to collect all debts and monies due and claims belonging to Security Indemnity, wherever located, where economically feasible, and for this purpose:

(i) to institute and maintain timely actions

in this and other jurisdictions, in order to forestall garnishment and attachment proceedings against such debts;

(ii) to do such other acts as are necessary or expedient to marshal, collect, conserve or protect Security Indemnity's assets or property, or the assets and property of its direct and indirect insurance subsidiaries, including the power to sell, compound, compromise or assign debts for purposes of collection upon such terms and conditions as she deems appropriate, and the power to initiate and maintain actions at law or equity or any other type of action or proceeding of any nature, in this and other jurisdictions;

(iii) to pursue any creditor's remedies available to enforce the Rehabilitator's claims;

(e) to conduct public and private sales of the assets and property of Security Indemnity including any real property;

(f) to acquire, invest, deposit, hypothecate, encumber, lease, improve, sell, transfer, abandon, or otherwise dispose of or deal with any asset or property of Security Indemnity and to sell, reinvest, trade or otherwise dispose of any securities or bonds presently held by Security Indemnity, upon such terms and conditions as the Rehabilitator deems to be fair and reasonable, irrespective of the value at which such property was last carried on the books of Security Indemnity. The Rehabilitator shall also have the power to execute, acknowledge and deliver any and all

deeds, assignments, releases and other instruments necessary or proper to effectuate any sale of property or other transaction in connection with the rehabilitation;

(g) upon approval of the Court to borrow money on the pledge of assets of Security Indemnity with or without security and to execute and deliver all documents necessary to that transaction for the purpose of facilitating the rehabilitation. Neither the Commissioner nor her designees or appointees shall be held liable in their official or personal capacities for any loans made for such purposes;

(h) to enter into such contracts as are necessary to carry out this Order, and to affirm or disavow any contracts to which Security Indemnity is a party;

(i) to institute and to prosecute, in the name of Security Indemnity or in her own name, any and all suits and other legal proceedings, to defend suits to which Security Indemnity or the Rehabilitator is a party, in this State or elsewhere, commenced prior or subsequent to this Order, to abandon the prosecution or defense of suits, legal proceedings and claims which she deems inappropriate to pursue further and to compromise suits, legal proceedings or claims on such terms and conditions as he deems appropriate, including but not limited to the action currently pending in the Superior Court of New Jersey, Chancery Division, captioned Holly C. Bakke, Commissioner of the New Jersey Department

of Banking and Insurance v. ABC Insurance Company (a fictitious designation for Security Indemnity), GMAC Re Corporation, Motors Insurance Corporation, and MIC Re Corporation, Docket Number MER-C-125-02; the Rehabilitator shall report to the Court no later than August 1, 2003, concerning the status of litigation under Docket Number MER C-125-02;

(j) to prosecute any action which may exist on behalf of the creditors, policyholders or shareholders of Security Indemnity against any officer or director of Security Indemnity, or any other person or entity;

(k) to perform such further and additional acts as she may deem necessary or appropriate for the accomplishment of or in aid of the purpose of rehabilitation, it being the intention of this Order that the aforesaid enumeration of powers shall not be construed as a limitation upon the Rehabilitator or Deputy Rehabilitator.

13. The Rehabilitator may at her discretion as of the date of this Order discontinue the defense of claims, suits and other proceedings, in this State and elsewhere, in which Security Indemnity insureds are parties, including those claims made and suits and proceedings undertaken prior to the date of this Order.

14. The Rehabilitator shall give or cause to be given notice of the entry of this Order as soon as possible by publication in a newspaper of general circulation in the counties

in which Security Indemnity currently has its corporate and administrative offices as well as in ~~The Wall Street Journal~~, ~~The Newark Star Ledger~~, ~~The Asbury Park Press~~, ~~The New Jersey Law Journal~~, The New Jersey Lawyer, and The Camden Courier Post, as well as such other newspapers circulated in such locations that the Rehabilitator may deem appropriate. Such publication shall commence within 7 days and shall be repeated once a week thereafter for two successive weeks. *

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15. The amounts recoverable by the Rehabilitator from any reinsurer of Security Indemnity shall not be reduced as a result of this delinquency proceeding, or by reason of any partial payment or distribution on a reinsured policy, contract or claim. Unless either the insurance contract or an applicable statute provides to the contrary, payment made directly to an insured or other creditor shall not diminish the reinsurer's obligation to Security Indemnity.

16. (a) Any agent, broker, premium finance company, or any other person, other than the insured, responsible for the payment of a premium, shall be obligated to pay any unpaid premiums, whether earned or unearned, as shown on the records of Security Indemnity as of the date of entry of this Order. No credit or set-off shall be allowed in favor of such person against his/her account with Security Indemnity for the unearned portion of the premium on any canceled contract or policy, unless:

(i) that contract or policy was canceled prior

* 14. A. A copy of this Order shall be forwarded to each Civil Presiding Judge and Civil Division Manager in each vicinage within 7 days. NHS

to the entry of this Order; and

(ii) the unearned premium on the canceled contract or policy was in fact refunded or credited to the insured or his/her assigns prior to the entry of this Order. The Rehabilitator shall also have the right to recover from such person any part of an unearned premium that represents a commission to such person.

(b) All group and individual policyholders of Security Indemnity or its direct and indirect insurance subsidiaries shall be obligated to pay any unpaid earned premium due to Security Indemnity, as shown on the records of Security Indemnity.

17. Existing contracts and other obligations by and between Security Indemnity and any reinsurer may, at the discretion of the Rehabilitator, be terminated. Such termination shall be effected by written notice issued by the Rehabilitator addressed to the reinsurer.

18. All further papers filed in these proceedings shall bear the caption and be entitled:

"I/M/O the Rehabilitation of Security Indemnity Insurance Company."

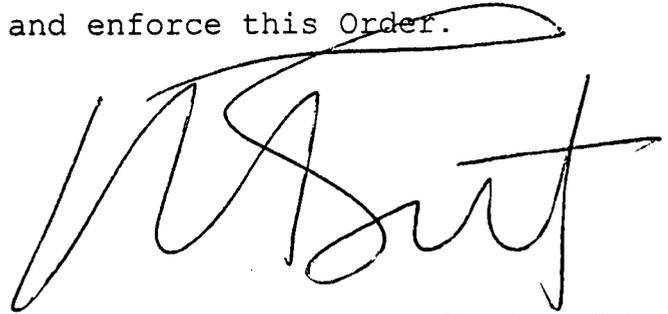
19. If any provision of this Order or the application thereof is for any reason held to be invalid, the remainder of this

Order and the application thereof to other persons or circumstances shall not be affected.

20. Any person, corporation or other entity having notice of this Order who fails to abide by its terms shall be directed to appear before this Court to show good cause, if any they may have, as to why they should not be held in contempt of Court for violation of the provisions of this Order.

21. The Commissioner as Rehabilitator may at any time make further application for such additional and different relief as she sees fit.

22. This Court shall retain jurisdiction for all purposes necessary to effectuate and enforce this Order.



Neil H. Shuster, P.J.Ch.Div.

June 27, 2003

23. Security's Cross Order to Show Cause under Docket # MER-C-125-02 to restrain the Commissioner from taking any further regulatory action is DENIED.

24. Security's motion to amend the Commissioner's Order to Show Cause to allow the filing of a summary judgment motion in Docket # MER-C-125-02 is DENIED.

25. Security's motion for a stay pending appeal is DENIED.

26. Security's motion for an adjournment of this Order to Show Cause is DENIED.

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